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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83 AND 1983-84

Memorandum by the Secretary of State for the Environment

Introduction

1. This paper

a) presents an analysis of local authority budgets for 1982-83;

b) sets out options for the Government's response to the substantial excess over the provision in the Rate Support Grant (RSG) settlement;

c) outlines a strategy for the 1983-84 RSG settlement.

2. The RSG settlement for 1982-83 was intended to be realistic but tough. We provided for £500m more Exchequer grant than in 1981-82, on condition that authorities spent at the targets we set them. Overspending authorities would lose grant. We asked them to increase their cash expenditure by no more than 2% compared with their budgets last year. This was equivalent to a real terms reduction of $3\frac{1}{2}\%$ on the 1981-82 level of expenditure; no individual authority was asked for a reduction of more than 7%. We assumed that domestic rates would rise by about 14%. The plans reflected our assumptions of 4% for pay and 9% for prices, although we knew that there was a serious risk that pay settlements would be higher.

1982-83: Analysis of Budgets

3. Annex A summarizes the Returns of Expenditure and Rates (RERs) for 1982-83. The main points are:

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(i) Local authorities are planning to spend £1.4 billion, or nearly 8%, more than provided for in the RSG settlement. This compares with a budgetted excess of 9½% at the same stage in 1981-82.

(ii) Overspending on particular services is:

	£	
Local transport	341	24%
Education	321	4%
Personal social services	137	7%
Local environmental services	132	6%
Police	127	6%
School meals and milk	79	24%
Libraries etc	40	13%
Fire	39	9%
Others	28	6%
Total current expenditure	1244	6.9%
Contributions to Housing Revenue Account	132	38%
Other non-current items	42	
"Total" expenditure	1418	7.7%

(iii) Domestic rate rises have averaged 17% to 18%, or 3% to 4% more than we estimated.

(iv) The analysis of overspend by class of authority is

	Conservative		Other		All Authorities	
	£m	%	£m	%	£m	%
Shire counties	211	5	354	9	565	7
Shire districts	12	2	37	6	49	14
Metropolitan counties	-	-	137	14	137	5
Metropolitan districts	15	3	186	6	201	54
Greater London Council (GLC)	-	-	238	54	238	14
Inner London Education Authority (ILEA)	-	-	93	14	93	5
City of London	-	-	2	5	2	5
Outer London	24	2	64	11	88	7
Inner London	6	4	52	8	58	
All (excluding Metropolitan Police)	268	4	1163	10	1431	7.9

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4. The reasons for the budgetted overspend can also be analysed as follows:

£m

- | | |
|---|-----|
| (i) Local authority inflation assumptions in excess of the 4% and 9% allowed for in the RSG settlement (excluding price excess in transport subsidies and concessionary fares, included in (iii) below.) | 415 |
| (ii) Higher rate fund contributions to housing revenue accounts, due to lower rent increases or higher expenditure. | 130 |
| (iii) Higher transport subsidies and concessionary fares; including £125m for payments by the Greater London Council for last year's cheap fares policy. | 245 |
| (iv) Expenditure by the Inner London Education Authority (ILEA), which receives no grant and is therefore outside the direct influence of the RSG settlement. (Note ILEA are planning to exceed their GRE by £275m, which represents a substantial proportion of the total overspend on education.) | 80 |
| (v) A small excess on financing items, which are largely determined by interest rates. | 40 |

These five items total £910m. This means that only about £500m (3%) is directly attributable to a real terms excess on current expenditure if we exclude ILEA and the transport subsidies. The main content of this is manpower. On that basis the figures suggest a standstill in real terms on current expenditure between 1981-82 and 1982-83 rather than the $3\frac{1}{2}\%$ real terms reduction which we sought.

5. The planned overspend is disappointing. But the analysis in paragraph 4 suggests that it is less damaging than it might seem at first, and that it is in part due to problems that are already being examined elsewhere. In particular:

- (i) The 4% and 9% cash factors were set right at the beginning of the pay round. They have to be set low to influence the climate of the pay round. Inevitably in the real world the pay settlements particularly will exceed the assumptions, as we are seeing throughout much of the public sector.

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(ii) We shall shortly be considering the special problems of transport subsidies and the options for legislation.

(iii) We shall be considering the future of ILEA in the context of the various interdepartmental studies of local government now in progress, including the study on the future of the metropolitan counties.

(iv) We shall be considering rate fund contributions to housing revenue accounts in the context of our policy for council house rents in the sensitive year 1983-84.

I therefore suggest that we should now focus primarily on current expenditure on manpower when considering options for grant holdback in 1982-83 and for the RSG Settlement for 1983-84.

1982-83: Options

6. The choices now are from the following:

(i) to do nothing;

(ii) to confirm that we shall proceed with the differential schemes of grant abatement for 1981-82 and 1982-83 which we have already announced;

(iii) to have a further across the board holdback with or without calling for revised budgets.

7. Option (i) can be ruled out. The overspend is too big. Besides, local authorities have already budgetted for the prospective grant abatement already announced.

8. Option (ii) is the least we can do. The amount ^{grant likely} to be withheld are about £200m for 1981-82 and £315m for 1982-83. We cannot withhold more grant on a differential basis because of concessions we have had to make to our own supporters during the passage of the Local Government Finance (No 2) Bill.

9. I must say that in my view that there are still substantial current economies particularly in manpower that local government could achieve compatible with the maintenance of adequate standards of service. There are wide discrepancies in relative spending levels, which suggest that there is still room for economies greater than local government has yet achieved.

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10. By far the biggest hurdle facing us is the reluctance and I believe in many cases refusal of our own party to accept this need for further economies.

11. Twice now we have failed to persuade our party to give us the weapons that are necessary to differentiate between low spending and high spending authorities. The complexities of making judgments between 400 authorities and 20 different services make it near impossible to prove either that the mechanisms are fair or that economy in a given constituency or local authority is desirable or possible.

12. I would like to withhold grant differentially now from the high spending authorities but I am denied the power to do this as a result of the pressure in Parliament of the Association of County Councils.

13. The Chief Secretary proposes a substantial holdback of grant across the board (option (iii)). In principle I agree with him. A further reduction of grant across the board would show local authorities that we mean business, and provide them with a real incentive for further economies. A reduction in grant across the board would hurt many of our supporters, especially in the two-thirds of authorities which are planning to meet their expenditure targets and/or to spend at or below their GRE. We should be accused - with some reason - of punishing them for the misbehaviour of the high spenders. (Tilting the poundage schedule so as to take more grant from high spenders, as suggested by the Chief Secretary, would not help. The only authorities to benefit would be those budgetting to spend well below GRE. There are very few of these.)

14. There are four further points I must put to colleagues. One, this proposal would not necessarily secure major expenditure reductions. Many authorities might choose to run down their balances rather than reduce their expenditure. This could lead to higher rate increases in 1983-84 as authorities sought to replenish balances.

15. Two, authorities unable to draw on balances and no longer able to levy supplementary rates could be forced into temporary borrowing. This will require my statutory consent, and I could thus be drawn into detailed scrutiny of local authorities' individual expenditure commitments. The Attorney-General has warned us that the exercise of discretion on applications of this kind is fraught with the risk of legal challenge. I have no doubt that litigious authorities would use the courts to embarrass us.

16. Three, if we favoured a further reduction in grant we should have to decide whether to give local authorities an opportunity to submit revised budgets before any holdback was implemented. We have done this previously. But

(i) revised budgets might not produce any further reduction; and

(ii) we might in equity have to delay the differential holdback scheme until the autumn so that grant abatement could be calculated on the latest available budgets.

17. But these three factors apart, there is the fourth and critical point.

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18. I do not believe that we could carry an order through the House. Colleagues who remember the problems of this years RSG order will want to consider if our colleagues in Buckinghamshire, Essex, Hertfordshire and many other areas will go through the process again when much of the responsibility for it will be thought and seen to be overspending Labour authorities.

Approach to the 1983-84 RSG Settlement

19. Our strategy for 1982-83 both affects and must be affected by our strategy for next year's settlement. The agreed timetable provides for a provisional announcement of the main features in July/August. We cannot expect to make any earlier announcement of substantive decisions, especially since formal consultations with local government on expenditure and grant issues will not be completed until then. It would however be possible to announce in general terms that local authorities must expect continuing pressure to reduce their expenditure, and that if they fail to respond their electors will face large rate increases next year. The following paragraphs set out the main facts, so that colleagues may now take a preliminary view.

20. It is clear that the provision in Cmnd 8494 for local government expenditure in 1983-84 is inadequate. It implies a real reduction of about 10% on 1982-83 budgets (assuming 7% inflation). This is not achievable. In the last seven years local government has reduced its current expenditure only twice - by 2% in 1977-78 and by 1½% in 1980-81. An increase of £1½ billion would imply a real reduction from 1982-83 budgets of about 2%. No immediate decision on this is required, but we shall need to take a view during the summer.

21. We shall continue to need individual expenditure targets in 1983-84. To abandon them would be seen as a relaxation of our commitment to reduce local government spending. But they must be realistic if our strategy is to be credible.

22. The level of grant affects, but cannot determine, rate increases. One of the constraints on rate increases - local elections - will be largely absent in 1983. So many authorities may take the view that their ratepayers will not react too strongly against increases which are noticeably less than those of 1981-82 and 1982-83, even if they exceed the rate of inflation. This could point to domestic rate increases of around 10% to 12%. We must try to ensure that the level of grant does not allow rate rises of this order to finance extra expenditure above our planned levels. Another year of substantial rate increases would reinforce the pressure for us to take early action on the reform of domestic rates. I shall shortly be consulting colleagues on this subject.

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23. Annex B examines the prospects for domestic rate increases in 1983-84 on a number of alternative assumptions. Two key working assumptions might be:

- (i) Inflation between 1982-83 and 1983-84 is 7%, and authorities budget in this expectation;
- (ii) Authorities plan to reduce expenditure in real terms between 1982-83 and 1983-84 by 2%.

If the public expenditure provision were increased by £1½ billion (as suggested above) a grant percentage of 52%, with total grant of about £12 billion, would imply an average domestic rate increase of about 9%. However, this could rise to about 15% if authorities ignored our call for further cuts and held their budgets at the 1982-83 level.

24. These are average figures. The range of increases could be very wide, particularly if a differential holdback scheme for authorities exceeding targets is part of the settlement. Lower levels of grant percentage would have more serious effects on authorities which have low rate poundages, eg some of the Outer London Boroughs and the shire counties.

Timing

25. We need to let local government know as soon as possible what act on we intend to take in response to the budgetted overspending for 1982-83. I shall be discussing the 1982-83 budgets with the local authority associations at the Consultative Council on Local Government Finance on 19 May, and would like to announce a decision then on (i) the differential holdback schemes for 1981-82 and 1982-83 and (ii) any further reduction of grant across the board.

26. As regards 1983-84, I would propose to say that the cash provision in the Public Expenditure White Paper will be reviewed as part of the normal consultative process; that there will again be individual expenditure targets; and that local government should expect grant to be set at a level which will exert continuing pressure to restrain expenditure.

27. I attach at Annex C a draft statement on which I should welcome colleagues' views.

28. I would then hope to announce decisions on the main elements for the 1983-84 settlement at the Consultative Council in July. If possible they should include any modification to the public expenditure provision and a figure for aggregate Exchequer grant. I shall bring proposals to colleagues in due course.

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Conclusions

29. I invite colleagues:

(i) to take note of the analysis of the local authority budgets for 1982-83 and the estimated outturn figures for 1981-82 set out in Annex A;

(ii) to agree that I should announce at the Consultative Council on Local Government Finance on 19 May that we propose to implement the differential grant abatement schemes for 1981-82 and 1982-83 as soon as possible after the Local Government Finance (No 2) Bill receives Royal Assent;

(iii) to consider whether we should further reduce grant in 1982-83, with or without the submission of revised budgets;

(iv) to express any preliminary views on the approach to the RSG settlement for 1983-84 set out in paragraphs 19 to 24;

(v) to consider the draft statement at Annex C.

MHI

Department of the Environment
2 Marsham Street
SW1

12 May 1982

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RER Results

Annex A

Summary

1982-83 budgets

1. In 1982-83, overspend on "total" expenditure is £1418 million (7.7%) above Settlement. (This compares with £1446 million from grant claim forms). (Table 1).
2. Within this overspend, there is £1244 million (6.9% above Settlement) on current expenditure, and £130 million on rate fund contribution to HRA (Table 1).
3. In current expenditure, authorities have provided for inflation of 7.9% between November 1981 and 1982-83 - an excess of 2.4% above the 5.4% implied by the Government's assumptions for pay and prices. This implies a current expenditure volume excess of 4.4% (Table 2).
4. The current expenditure cash excess is therefore made up of over one third (£440 million) of inflation excess and nearly two-thirds (£800 million) of volume excess. (Table 2).
5. The budgets imply a volume growth of 14% from 1981-82 revised budgets, though about half of this can be attributed to the GLC's repayment of the 1981-82 "fares fair" losses. (Table 7).
6. Shortfall is likely to be higher from original budgets than from revised budgets, so we might assume a volume standstill between 1981-82 and 1982-83.
7. GLC, Met. counties and ILEA all contribute above average percentage "total" overspend, but shire counties' share in the overspend is 40% (their share in expenditure is 45%) (Table 3).
8. Transport remains the largest overspending service - £340 million cash (24%) over Settlement, of which £213 million is on subsidies and a further £32 million on concessionary fares (Table 4).

1981-82 Revised estimates

9. The revised estimates for 1981-82 show current expenditure at £17,500 million cash, almost exactly the same as in revised budgets (Table 6).
10. The overspend of £1279 million (7.9%), implies a volume excess of £800 million (November 1980 prices) or 5.3%, if we assume the same inflation as provided for in revised budgets (Table 6).

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Tables and graphs

Local Authorities' budgets 1982-83 - England

Table 1 - Current, relevant, "total" expenditure compared with Settlement, 1982-83.

Table 2 - Current expenditure cash, volume, price. 1982-83

Table 3 - "Total" and current expenditure by class, 1982-83

Table 4 - current expenditure cash by service, 1982-83.

Table 5 - The financing of relevant expenditure, 1982-83.

Table 6 - Revised estimates compared with Settlement, by service, 1981-82.

Table 7 - Current expenditure, volume - plans, outturn and budgets 1978-79 to 1982-83

Graph - of table 7

Graph of inflation rates by "major" authorities.

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RER 83: Analysis of Results: LOCAL GOVERNMENT, ENGLAND

Table 1: Analysis of overspend

	Settlement £m	LA budgets £m	Overspend	
			£m	%
Total current expenditure	18,000	19,244	1244	6.9
Revenue contributions to capital outlay	565	531	-34	-6.0
Loan charges	1,965	2,035	70	3.6
Rate Fund contributions to Housing Revenue Account	347	479	132	38.0
Interest Receipts	-414	-350	64	15.5
Adjustment, rounding		-3		
Total relevant expenditure	20,463	21,936	1473	7.2
Non-relevant expenditure	176	190	14	8.0
Estimated specific and supplementary grants	-2,124	-2197	-73	3.4
Adjustment, rounding		4	4	
Grant-related expenditure (or "total" expenditure)	18,515	19,933	1418	7.7
BG estimate of "total" overspend			1446	7.8

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RER 83: Analysis of Results : LOCAL GOVERNMENT, ENGLAND

Table 2: .. - Current Expenditure
- volume, price, cash

	Sett- lement	Budget	Excess		Contri- bution to cash over- spend
	£m	£m	£m	%	£m
Cash 1982-83	18000	19244		6.9	1244
Volume Nov'81 prices	17085 ⁽¹⁾	17835	750	4.4	802
Prices (Nov81 to 1982-83)	5.4%	7.9%		2.4%	442

(1) Created for this analysis by revaluing the £18 billion in line with government assumptions about pay and prices. The implied factor of 1.054 has been constructed from our pay and price assumptions to provide an illustration run of figures at November 1981 prices.

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RER 83: Analysis of Results : LOCAL GOVERNMENT, ENGLAND

Table 3: Cash overspend by class

- "Total", Current

	Cash "Total" overspend		Cash Current overspend	
	£m	%	£m	%
Non-met counties	565	6.7	603	7.2
Met counties	137	13.9	131	10.6
Non-met Districts	49	3.6	36	3.2
Met Districts	201	5.3	160	4.7
GLC	238	53.7	155	36.1
Inner London	58	7.4	16	2.7
Outer London	88	5.5	64	4.4
City of London	2	4.6	3	8.3
ILEA	93	13.7	92	14.1
Isles of Scilly	0	5.8	0	8.8
Met. Police ⁽¹⁾	-14	-4.2	-1	-2.3
TOTAL	1418	7.7	1244	6.9

The figures for Met. Police are based on Settlement figures since when their GRE has been revised downwards.

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RER 83: Analysis of Results : LOCAL GOVERNMENT, ENGLAND

Table 4: Cash Overspend by Service

Cash 1982-83

	Settlement £m	(1) Budget £m	Overspend	
			£m	%
Education	8865	9186	321	3.6
School Meals & Milk	325	404	79	24.4
Libraries etc	302	342	40	13.3
Personal Social Services	1857	1949	137	7.4
Port Health	3	3	0	5.3
Police	2031	2158	127	6.3
Fire	449	488	39	8.7
Other Home Office	278	292	14	5.1
Local Transport ⁽¹⁾	1423	1764	341	24.0
Consumer Protection	48	53	5	9.5
LES	2262	2394	132	5.8
Employment	64	71	7	10.3
Housing	93	95	2	2.0
TOTAL	18000	19244	1244	6.91
(1) of which Concessionary fares	163	195	32	19.9
RFC to Transport	314.3	527	213	67.7

Factor to convert Budget service figures at November 1981 price to 1982-83 outturn have been constructed by DOE. These factors in aggregate agree with local authority estimates of aggregate inflation.

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Table 5: Financing of Net Revenue Expenditure

£ million

	Non-met CCs	Met CCs	Non-met DCs	Met DCs	GLC	Inner London+ City	Outer London	ILEA	Met Police	England	%
Rates ⁽¹⁾	5038	654	735 ⁽¹⁾	1911 ⁽¹⁾	669	452 ⁽¹⁾	843 ⁽¹⁾	795	329	11427	52
Block Grant	3915	473	617	2050	45	387	829	0	0	8316	38
Specific & Supp- lementary grants	815	418	125	191	205	41	32	16	353	2197	10
Drawing from balances	83	-4	48	29	-31	57	32	-22	-5	188	1
TOTAL	9851	1541	1525	4181	888	937	1736	789	677	22128	100

(1) includes domestic rate relief grant of £638 million (3% of total)

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410

Table 6: Analysis of 1981-82 Overspend

Cash 1981-82

	Settlement ⁽¹⁾ £m	Revised Estimate £m	Overspend	
			£m	%
Education	8086	8489	403	5.0
School Meals and Milk	247	395	148	59.9
Libraries etc	261	310	49	18.8
Personal Social Services	1551	1805	254	16.4
Port Health	3	3	-	-
Police	1861	1915	54	2.9
Fire	414	428	14	3.4
Other Home Office	248	262	14	5.6
Local Transport	1281	1532	251	19.6
Consumer Protection	44	47	3	6.8
LES	2096	2169	73	3.5
Employment	59	63	4	6.8
Housing	74	87	13	17.6
Current	16225	17504	1279	7.9
Current volume Nov 1980	15159	15956 ⁽²⁾	797	5.3

(1) Includes cash increase for September 1981 Police pay award

(2) Using authorities average revised budgets inflation factor of 9.7% from November 1980 to 1981-82 outturn.

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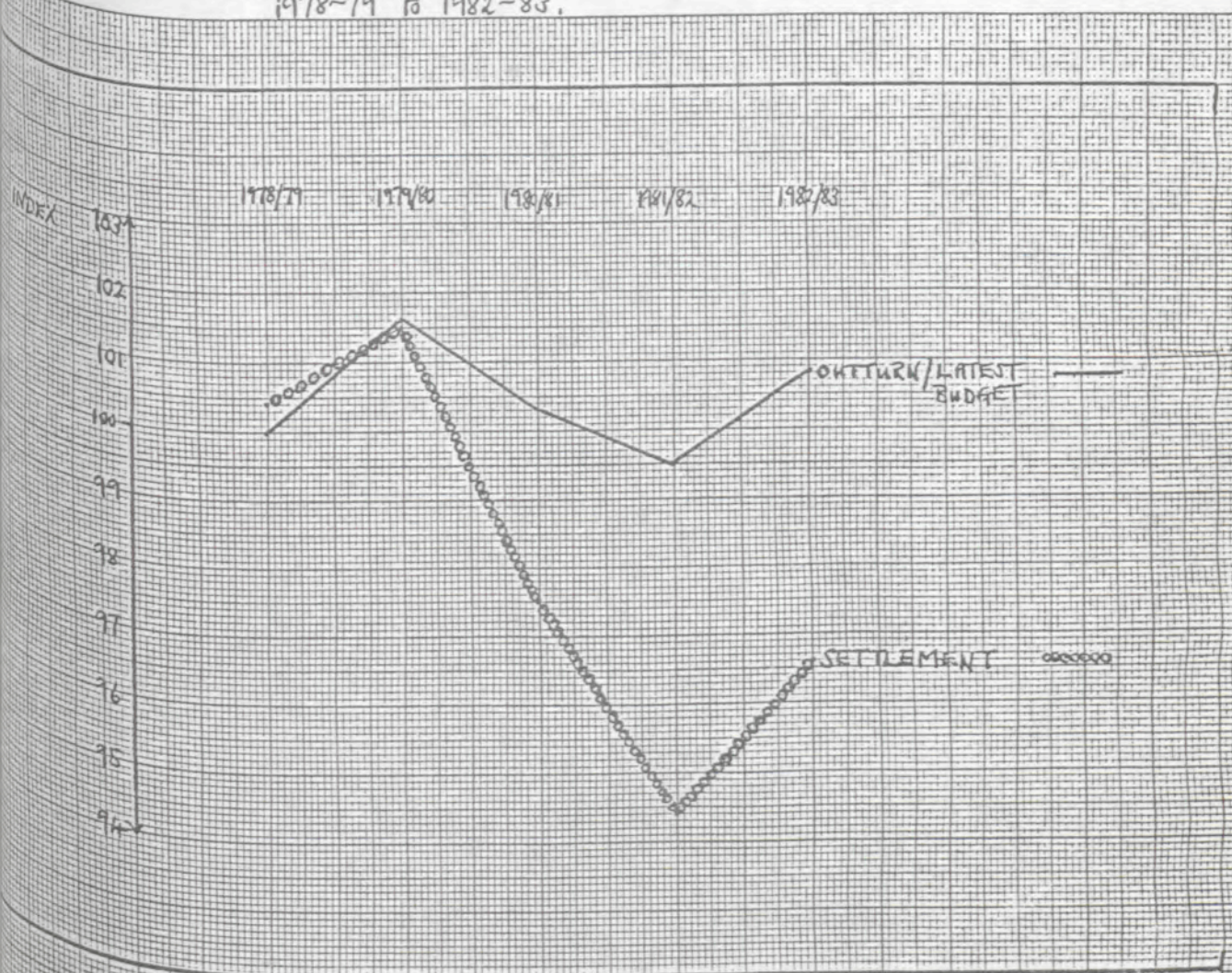
NER 83: Analysis of Results

TABLE 7: Net Current Expenditure, Settlement and Outturn/Budget at constant prices
1978-79 Outturn = 100.0

	Settlement	Outturn/ Latest Budget	Percentage Excess Outturn/Budget over Settlement	Percentage Year-on-Year change outturn/ Budget
1978-79	100.4	100.0	$-\frac{1}{2}$	-
1979-80	101.4	101.5	0	$+1\frac{1}{2}$
1980-81	97.5	100.1	$+2\frac{3}{4}$	$-1\frac{1}{2}$
1981-82	94.4	99. (1)	$+5\frac{1}{4}$	$-\frac{3}{4}$
1982-83	96.	100.8 (2)	$+4\frac{1}{2}$	$+1\frac{1}{4}$

- (1) Revised Budget
(2) Budget

ENGLAND: SETTLEMENT AND OUTTURN, INDEX 1978-79 OUTTURN = 100
1978-79 to 1982-83.



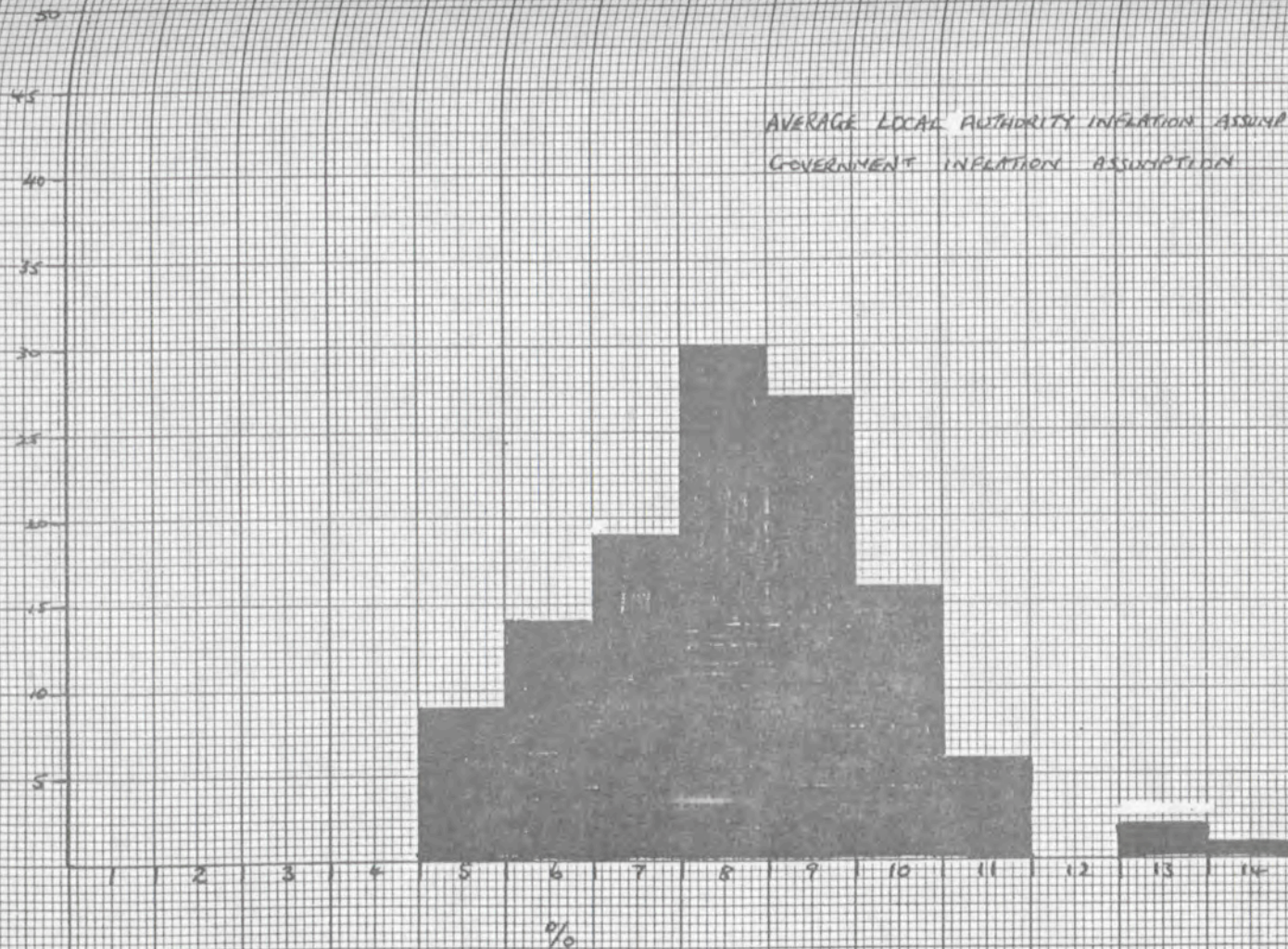
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RER 83: ANALYSIS OF RESULTS

LOCAL AUTHORITY* INFLATION ASSUMPTIONS FROM NOVEMBER 1981 TO 1982/83 OUTTURN

NO. OF LOCAL
AUTHORITIES



AVERAGE LOCAL AUTHORITY INFLATION ASSUMPTION = 7.9%

GOVERNMENT INFLATION ASSUMPTION = 5.4%

* FOR METROPOLITAN AREAS, LONDON AUTHORITIES, NON-METROPOLITAN COUNTIES
AND THE 10 LARGEST NON-METROPOLITAN DISTRICTS.

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ANNEX B

Rate increases in 1983-84 on alternative assumptions

1. Options for RSG settlement 1983-84

Current expenditure The provision implied in Cmnd 8494 is £18.7bn.

If inflation between 1982-83 and 1983-84 is 7% this implies a real reduction from budgeted expenditure for 1982-83 of 10%

An increase of £1 billion in the provision implies a reduction of 4½%.

An increase of £1.5 billion implies a reduction of 2%.

An increase of £1.7 billion implies a reduction of 1%.

Non current expenditure. A cash provision of £2.7 billion is assumed - 10% more than in 1982-83.

Grant. Four grant percentage options are exemplified: 56, 54, 52 and 50.

Holdback Assumptions. A differential holdback scheme is operated in 1983-84 ranging from £100m if authorities are asked for a 1% cut and achieve it on average to £500m if they are asked for a 4½% cut and make no reduction.

Domestic rate relief remains at 18½p.

2. Local authorities' budgets in 1983-84

Inflation. Local authorities assume 7% between 1982-83 and 1983-84.

Current expenditure is reduced below 1982-83 budgets by 2% (Cases A and B) and 1% (Case C). In all cases the results of a nil reduction are also shown.

Non-current expenditure is £2.7 billion (see 1 above).

Balances 1982-83. are replenished by £200m after substantial run down in 1982-83.

Holdback. Local authorities rate for possible loss of £250m from further general holdback during 1983-84.

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Implied domestic rate increases - April 1982 to April 1983

CASE A: PES provision increased by £1 billion; required cut 4½%
Local authorities budget for cut of

Grant%	Grant £m	2%	0%
56	12,550	5	11
54	12,100	9	15
52	11,650	14	20
50	11,200	18	24

CASE B: PES provision increased by £1.5 billion; required cut 2%
Local authorities budget for cut of

Grant%	Grant £m	2%	0%
56	12,830	0	6
54	12,370	5	11
52	11,910	9	15
50	11,450	14	20

CASE C: PES provision increased by £1.7 billion; required cut 1%
Local authorities budget for cut of

Grant %	Grant £m	1%	0%
56	12,940	1	4
54	12,480	6	9
52	12,020	10	13
50	11,550	15	18

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DRAFT STATEMENT

ANNEX C

1. Local authorities' budgets for 1982-83 show that they are planning to spend £1.4bn, or nearly 8%, more than was provided for in the Rate Support Grant settlement. There is planned overspending on all services and by all classes of authority.
2. The Government cannot ignore this. I therefore propose to implement the scheme for grant abatement in respect of overspending local authorities, which I announced on 21 December 1981, as soon as the statutory provisions in the Local Government Finance (No 2) Bill receive Royal Assent. On the basis of the 1982-83 budgets this means that overspending authorities are likely to lose some £315m grant. Details of the proposals are being sent to local authorities today, and a copy of my Department's letter is being placed in the library. I also propose to withhold about £200m grant under the same legislation in respect of local authorities' overspending in 1981-82. These two proposals will mean a withholding of over £500m of grant in 1982-83.
3. I have also considered whether to make a further reduction in grant across the board. I have decided not to do so because it would be bound to affect not only the overspenders but also those authorities which have made real and successful attempts to reduce their spending.
4. I hope that all local authorities will keep their spending plans under review during the year in the light of the proposed holdback of grant, in order to minimize their grant loss and to protect their ratepayers from further substantial rate rises next year.
5. The Public Expenditure White Paper (Cmd 8494) set out the Government's plans for local government expenditure in 1983-84. They will be reviewed over the next few months as part of the normal consultative process with the local authority associations, and the Government hope to announce their conclusions during the summer.

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6. Continuing restraint will be needed, and the Government believe that individual expenditure targets will again be necessary. These targets will not ask the impossible from local government, and they will take account of the progress which individual authorities have already made. They will nevertheless require further real reductions in expenditure, and authorities which fail to meet them will lose grant.

7. The level of rate support grant will be restricted in order to provide a further incentive to local authorities to reduce their expenditure. It is not right that the national taxpayer should finance a level of grant which permits local government generally to indulge in a higher level of expenditure than the nation can afford.

8. There will thus continue to be pressure on ratepayers unless local authorities make determined efforts to bring their spending in line with the guidelines set by central government. High rate rises hit all sectors of the community: costs increase, jobs are lost, and everybody suffers. I am sure local authorities will wish to avoid this. That is why I am giving early warning of the shape of next year's rate support grant settlement. It takes time to make expenditure cuts; local government needs, and is being given, sufficient warning now.

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